ACCOUNTANCY

VOL. LVIII (Vol. 9 New Series) **September, 1947** **Number 649**

CONTENTS

PROFESSIONAL NOTES

Large Tax Arrears

Total arrears of tax in 1945 were no less than £780 million, an increase of £120 million on the figure for the previous year. In 1939 the total was a mere £77 million. These figures are given in the Third Report of the Public Accounts Committee for the Session 1946-47. The £780 million was made up as follows:

	£ million
Income Tax (excluding P.A.Y.E.)	284
Surtax	37
N.D.C.	22
E.P.T.	437

Income tax was so greatly in arrear mainly because assessments could not be settled until E.P.T. liabilities had been agreed, since the latter tax is a deduction for income tax. The delay in completing E.P.T. assessments resulted from staff shortages in the Inland Revenue. Owing to the decision not to balance Inspectors' records of Schedule E tax as at September in each of the years 1945 to 1947, arrears of P.A.Y.E. tax were unknown and could not be included in the figures quoted by the Committee. Further, some relaxations of Inland Revenue procedure—including the abandonment of assessments for 1944-45 and 1945-46, where tax deducted was less than £175—meant that an unknown amount of tax was waived.

The Committee "viewed with particular anxiety the large arrears in the Inland Revenue Department. Growing arrears of taxation of the magnitude recorded not only have a harmful effect on the budgetary position, but also encourage laxity in the payment of taxes. They therefore hope that every effort will be made to expedite the recruitment and training of the staff necessary to reduce the arrears of tax due to be collected."

Bonus Issue Statements

An eight-page memorandum on the Bonus Issues Tax issued by the Inland Revenue covers for the most part the same ground as the article in our July issue (pages 157-158), but some additional details are given of the procedure to be followed in arriving at the assessment. For any bonus issue or scheme for the variation of rights or liabilities, a statement must be delivered to the Commissioners containing, in addition to the routine information, the following particulars: Details of the consideration (where any), when and how payable, the quotation of the letters of rights (or of the securities themselves) on the first day available on any recognised Stock Exchange. If such quotations are not available in the case of a public company, the company shall form its own estimate of the value of the securities as if sold in the open market on the date of allotment, providing such additional evidence as may be felt necessary. The statement must be returned to the Commissioners one month after the latest of three dates: the allotment date, the first date on which a quotation is available for determining the value of the bonus, or July 31, 1947. In the case of a variation of rights statement, the first two dates are replaced by the date when the variation becomes effective. It is difficult to believe that this provision at least could not have been simplified. If the issue is not completed within the statutory period, a supple-

mentary statement must be submitted at the expiration of every month after the date of the first statement until all allotments have been returned to the Commissioners. Although not assessable under the new tax, any issue of shares arising from a *bona fide* amalgamation between two or more companies must be returned, but a scheme of arrangement whereby preference shareholders receive shares in consideration of renouncing dividend arrears is exempt from this obligation. On receipt of the assessment from the Commissioners, the company must pay the tax within twenty-one days; it has the right, however, of appeal to the High Court.

Social Accounting

In a paper which he read before the British Association at Dundee last month, Mr. F. Sewell Bray, F.S.A.A., F.C.A., cogently put the case for a broader approach to accountancy than has usually been adopted in the past. Recent work by economists and statisticians in the field of the national income may be regarded as springing from an appreciation of the fact, as Mr. Bray put it, that "the method of double entry carries with it a vital statistical check in the sense that each recorded originating transaction must have its reciprocal counterpart somewhere in the institutional system. When this system is extended on to the plane of a social economy an item of income in one context becomes expenditure in another." While global aggregates for the economy as a whole are constructed as a result of a recognition that one man's income is another's expenditure—the two methods of calculating the national income are *via* aggregated incomes on the one hand, and *via* aggregated outputs on the other—Mr. Bray directed attention to an important point when he questioned why so many recent investigators have concentrated upon the concept of national income to the comparative neglect of its counterpart, the national expenditure. At the present stage in our affairs, the directions taken by the disposal of income are certainly no less significant than those pursued by by the channels of income generation. Mr. Bray pointed to what may prove a decisive stage in the development of the new study of social accounting when he referred to the summaries contained in the appendix to the last White Paper on the "National Income and Expenditure of the United Kingdom, 1939-46," for these summaries gave national totals in conventional accounting form—the first time that double entry had been applied to official publications of this kind. He indicated how the information given in these national accounts could usefully be improved and extended. There could be a sub-division into specific activities, for example, banks and financial intermediaries, insurance and social security agencies, agriculture, mining, the various kinds of manufacturing undertakings, transport, merchanting, and so on. "It is not difficult to make conjectures in regard to some of the opportunities which might ensue from this division, if set, for example, to the purposes of such enquiries as are pursued by agricultural economists." A further sub-division could be on a geographical basis, another could differentiate capital goods from consumption goods, yet another could make a finer distinction between the degrees of durability among the goods contained in the national output.

Given sufficient information—and a sufficient degree of uniformity—in the accounts of the individual business within the economy, it is, as Mr. Bray emphasised, a mere matter of aggregation to produce national income (or expenditure) figures on any basis required. It seems to us a reasonable observation that the accountant must increasingly have regard to the need of accurate national accounting aggregates and must endeavour to secure those improvements in the form and content of business accounts which will help to secure them. To some of the problems involved, once this obligation is admitted, Mr. Bray devoted the last part of his paper —such problems as the method of valuing stocks, the maintenance of the real capital of the enterprise and the possible making-up of accounts at a uniform date—but he rightly placed more stress upon securing general recognition of the importance of business accounting in the more precise formulation of national totals. The more specific problems just mentioned were covered rather more fully by Mr. Bray in another paper on "The Measurement of Profits," delivered during July to the Leicester Colleges of Art and Technology on the occasion of their Jubilee. We regret that restrictions of space do not allow us to reproduce either of Mr. Bray's papers at this stage, but we hope we may have a later opportunity of further acquainting our readers with the valuable work on the subject of the measurement of profits which is being done by Mr. Bray in his capacity as a Fellow in the Department of Applied Economics at Cambridge University. Meanwhile, we would congratulate him upon the signal but well-deserved honour of being called upon to read his paper to the British Association—an unusual, if not unique, occasion for a member of the accountancy profession.

Coal Industry Tribunal

The Coal Industry Nationalisation Act provides under Section 24 for the setting up of a tribunal to deal with the interim protection against enforcement of liabilities of applicants owning interests transferred to the National Coal Board. The Lord Chancellor has now set up the tribunal, and we are pleased to announce that Mr. Richard A. Witty, F.S.A.A., a Past-President of the Society of Incorporated Accountants and senior partner of Button, Stevens & Witty, has been appointed a member. Sir John Morison, C.A., and Mr. H. G. Ash, O.B.E., M.C., F.C.A., are also members. The tribunal may direct that an applicant shall be entitled to protection where the transferred interest formed a substantial part of his resources and where steps have been taken for the enforcement of a liability, if the taking of those steps was attributable to nationalisation. The address of the Registrar of the tribunal is Room 772, Royal Courts of Justice, Strand, W.C.2.

Discriminatory Company Law in Egypt

Yet another instalment to the chequered history of international investment is provided by the company law recently passed by the Egyptian legislature. This provides that 40 per cent. of the directorate of all companies must be Egyptian, on pain of rendering the board's decisions null and void. At least 51 per cent. of the shares of a new company, or of a company increasing its capital, shall be allotted to Egyptian nationals. Should the requisite subscriptions not be forthcoming within at least one month of the opening of the lists, the offer must be kept open for a further month. Within three years of the passage of the Act, 75 per cent. of all "employees" (salaried officers) and 90 per cent. of all workers must be Egyptians in receipt of 65 per cent. and 80 per cent. of the total salaries and wages bills respectively. These provisions also apply to branches, agencies and offices in Egypt of companies established abroad. In a letter to *The Times*, the Egyptian Commercial Attaché, Mr. Tarfa, contends that the labour provisions are no more discriminatory than the immigration policies and trade union restrictions elsewhere. Nevertheless, the Act is clearly one more aspect of the nationalist fervour of present-day Egypt. It is hardly surprising that to ensure enforcement of the Act, the officials of the Ministry of Commerce shall have "the authority of police and judicial officers . . . and the right to inspect books and registers."

Society of Incorporated Accountants

We are pleased to record that at its last meeting, the Council of the Society of Incorporated Accountants appointed Mr. I. A. F. Craig, O.B.E., B.A., as Deputy Secretary and Mr. C. A. Evan-Jones, M.B.E., as Assistant Secretary. We are sure that Mr. Craig and Mr. Evan-Jones will render most valuable assistance to Mr. A. A. Garrett, the Secretary, and we wish them long and happy service with the Society.

"Design of Accounts"

September 4 is publication date for the second edition of "Design of Accounts," by F. Sewell Bray, F.S.A.A., F.C.A., and H. Basil Sheasby, F.S.A.A., F.C.A. This book is published for the Incorporated Accountants' Research Committee by the Oxford University Press, price 12s. 6d. net. The second edition contains a considerable amount of additional matter. The first edition appeared in 1944, and all copies were very quickly sold. Since then many of our readers have placed orders for the second edition; they will receive their copies shortly. Any further orders should be sent immediately to a bookseller (not to the Society or the publishers). Orders will be fulfilled so far as supplies permit. A review of the book will appear in an early issue of ACCOUNTANCY.

Accountancy Jubilees in U.S.A.

The American Institute of Accountants is sixty years old this year, and the New York State Society of Certified Public Accountants reaches its half-century. The American Institute is the federal body of certified public accountants in the United States, and the New York State Society is the largest of the organisations serving a State. Total membership of the Institute is now more than ten thousand, and the aggregate membership of all State societies exceeds fifteen thousand. The existence of a national professional body and of independent societies in individual States follows naturally from the political constitution of the U.S.A. To quote from an article in a handsome 92-page booklet published by the New York State Society to celebrate its fiftieth anniversary: "Certain functions can be performed by one group more effectively than by the other. The Institute represents the profession at the national level, the State societies at the State level. In the problem of State legislation, for example, only a State society can deal effectively with a State legislature. But forty-odd States can conceivably develop forty-odd types of accounting legislation. Uniform legislation and inter-State reciprocity are in the interests of the entire profession, and it is through the national organisation that the views and experiences of the different State societies can be brought together and uniform accountancy laws recommended."

The Universities and the Accountancy Profession

The Universities scheme, which provides a means whereby a University degree and a professional qualification can be obtained within a period of five and three-quarter years, has been approved as respects the Universities or University Colleges of—

Birmingham
Bristol
Cardiff
Durham (Newcastle Division)
Hull
Leeds
Liverpool
London
Manchester
Nottingham
Sheffield.

The scheme is already in operation at all these Universities and University Colleges, with the exception of the University of Manchester, where it will commence in October. Applications should be submitted to the Registrar of the University of Manchester as soon as possible. A revised edition of the brochure giving full details of the scheme will be published shortly and will be available on request from the Secretaries of the accountancy bodies.

The Society's Appointments Register

It is desired to bring the Society's Appointments Register to the notice of all members and of employers who have vacancies for Incorporated Accountants on their staffs. No fees are payable. All enquiries should be addressed to the Secretary, The Society of Incorporated Accountants, Incorporated Accountants' Hall, Victoria Embankment, W.C.2. (Telephone Temple Bar 8822.)

ACCOUNTANCY

Formerly the Incorporated Accountants' Journal
Established 1889

The Annual Subscription to ACCOUNTANCY *is* 12*s.* 6*d., which includes postage to all parts of the world. The price of a single copy is* 1*s.* 0*d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.*2.

TESTING TIME

That convertibility of current sterling into dollars lasted only five weeks is evidence not only of the onerousness of the American Loan terms—which imposed this convertibility upon us—but even more, of the fundamental disequilibrium of the British economy. And by the same token, the suspension of convertibility into dollars, while it eases the immediate drain upon our rapidly disappearing supplies of that currency, does little or nothing to solve our longer-range problems. Similarly, it is satisfactory that we have been relieved of another obligation of the loan agreement, binding us not to reduce specific imports from the United States unless we also reduce them from other sources, but even discriminatory action against American goods will not take us far towards achieving balance with the external world, for many other suppliers will be reluctant to accept sterling that cannot be immediately changed into dollars. In effect, the dollar crisis of mid-August, like most other crises, should be regarded as evidence of a deep-seated disorder. It is a warning that only fundamental steps are sufficient. This truly is a testing time for the British people.

The proposals of the Government, announced two weeks before the suspension of convertibility, were pitifully inadequate and vague and themselves could have done nothing to help the immediate pressure upon the exchanges. No details were given—obviously none were available—of the specific cuts in imported foodstuffs from "hard" currency countries aggregating £144 million in a year. In the absence of any details, there was bound to be widespread scepticism of our ability to make these economies. A reduction of £10 million in a year's imports of timber was important, not in itself, but rather for what it might indicate by way of a more realistic housing programme. Nevertheless, no concrete information about savings in this direction was forthcoming, though it is evident that a country in the position in which we find ourselves cannot possibly support the lavish re-housing plans which have been projected to date. Other forms of capital investment were, the Prime Minister announced, to be more rigidly controlled. If this means there will be big reductions in proposed investment by the State, by municipal authorities and by private industry, that is a step of importance—but the nation is entitled to have figures showing in some detail what investment is to be proceeded with and what is to be postponed. Without a capital budget—for which we have argued in these columns before—there can be no certainty that the problem is really being faced. The partial control of labour, again, if properly administered, seems to be an inevitable part of the drastic treatment necessary for our present economic ills—but, as with other controls, the danger lies in clumsy and inefficient handling of the Government's powers, rather than in the existence of those powers themselves.

It is clear that all the steps so far announced by the Government are not sufficient to overcome an adverse balance on external account of nearly £800 million per annum. Nor would assistance from the United States, whether received directly or indirectly through the Marshall plan for Europe, provide a solution. It would merely postpone the day of reckoning. Closer integration with Western Europe, the slowness of whose recovery is very largely to blame for our present trading difficulties—the importance of Europe to us pre-war is very often overlooked—is attractive but is bound to be a longer-term project than is needed to set our affairs right. Increased supplies from Commonwealth countries may be available, within limits, but the limits will surely be fairly narrow, for we have presumably done all we can in these past months to import our essential needs from the Dominions and Colonies.

In all these circumstances, we must expect a degree of austerity in living standards much greater than is generally realised. It is indeed a hard decision to make for a country which has endured six years of war-time sacrifices. But if, as is evidently so, the choice is between reduced consumption, on the one hand, and the cutting-off of imported materials for industry, on the other hand, the choice is surely clear. Probably—almost certainly—there would be a fall in productivity if living standards were reduced, but it would be much less than if industry were starved of its raw materials.

We may regard an autumn budget as rather more likely than the Chancellor of the Exchequer has so far admitted. But the prophesies of increased taxation all round should be taken with some scepticism at this stage. The internal revenue has been buoyant and on current account there is a sizeable surplus over expenditure. It is as doubtful as it ever was whether the best way of destroying the inflationary pressure on prices is by the route of a large surplus on the budget. And the importance of lowering direct taxation is even greater than it was, now that other factors are likely to diminish productivity. If any forecast were to be hazarded, perhaps an increased profits tax is as likely as any other step. Regardless of the economic merits of such a move, which are, to say the least, debatable, it might well prove to be a *quid pro quo* for further relaxation of restrictive practices by the trade unions and, in particular, for payments by results and a more extensive working of overtime, both of which are sorely needed.

The Companies Act, 1947*

[CONTRIBUTED.]

No part of the Companies Act, 1947, is yet effective: it is to come into force on a day or days to be appointed by the Board of Trade.

Government statements have been made in both Houses of Parliament that effect will be given as early as possible to provisions embodying concessions or relating primarily to the powers of the Board of Trade. Subsequently (but only after something like six months' notice) the sections affecting accounts are to be brought into force; these are largely self-contained, and it is felt that their operation should not be unnecessarily delayed. Other provisions may not become effective until after the passing of a consolidating Bill.

The new provisions, whenever they come into effect, will require due digestion by those affected. The following notes are intended to indicate, rather than set out in any detail, the principal changes in the law. Statements as to the broad effect of the new provisions may involve a sacrifice of accuracy in detail, but they may nevertheless provide useful signposts to the main roads: the sometimes tortuous byways of exception and qualification can only be investigated by reference to the Act itself.

Accounts (ss. 13-16)†

The Act contains in the First Schedule detailed provisions as to the contents of the balance sheet and the profit and loss account (which is to be annexed to the balance sheet), but it should be borne in mind that these provisions are not exhaustive, as there are sections of the 1929 Act which continue to apply (*e.g.*, Section 124, Section 125) and other sections of the new Act which require further information to appear in the accounts (*e.g.*, Section 38—particulars of directors' fees, pensions, etc.). Every member and debenture-holder of a company, whether public or private, is entitled as of right to a copy of the accounts.

In the case of a holding company, group accounts, dealing with the state of affairs and profit and loss of the company and its subsidiaries, must be prepared and laid before the general meeting of the holding company, when the company's own accounts are presented. This obligation does not apply where the holding company is itself a wholly owned subsidiary, and in certain cases the directors are empowered to omit a subsidiary from the group accounts. (Section 14 (2) (*b*).) The general rule is that group accounts are to be consolidated accounts—a consolidated balance sheet and a consolidated profit and loss account—but the directors may have them prepared in some other form if considered more appropriate, *e.g.*, several sets of consolidated accounts each dealing with a different group of subsidiary companies, or separate accounts dealing with each of the subsidiaries. Details as to the required contents of group accounts are again to be found in the First Schedule. (Part II, B.) Group accounts are to be annexed to the holding company's balance sheet.

The directors' report which Section 123 (2) of the 1929 Act requires to be attached to the balance sheet is to deal, so far as material for the appreciation of the state of the company's affairs by its members, with changes in the nature of the company's business or in the company's subsidiaries or in the classes of business in which the company has an interest. This requirement does not apply if the directors consider such disclosure harmful to the company's business. (Section 19.)

Auditors (ss. 22-24)

Except in the case of an exempt private company (as to which, see under "Private Companies" below) the auditor is now required to have a definite qualification—either he must be a member of a body of accountants recognised for this purpose by the Board of Trade, or he must be authorised by the Board of Trade to be appointed as auditor. The disqualifications existing under Section 133 of the 1929 Act are extended, and a servant of the company may not be the auditor nor, except in an exempt private company, may a partner or employee of any director, officer or servant. A disqualified person is equally disqualified as auditor of the company's subsidiary, holding and associated companies.

Though an auditor is to continue to hold office from one annual general meeting to the next, his re-appointment (if he is willing and qualified) will be automatic, unless a resolution is passed appointing somebody in his place or providing expressly that he is not to be reappointed. Such a resolution requires special notice (as to which see Section 2 (6)), and the auditor is to be given the opportunity to make written representations which are to be circulated to the members.

The auditors are to report on the profit and loss account and group accounts (if any) as well as the balance sheet. The form of the report is expanded and must contain statements on the matters now set out in the 2nd Schedule (replacing the provisions in Section 134 of the 1929 Act). Auditors are to have the same right as a member to notice of and to attend any general meeting, and may speak on any part of the business which concerns them as auditors.

Annual Return

The annual return of a private company is now to include a copy of the accounts, unless the company is an exempt private company. Other amendments in regard to the annual return of a company are contained in Sections 52 and 53, and here it may be noted that a copy of the directors' report is to be included and that a full list of members is only required once every three years.

*We go to press before publication of the official text of the Act. The numbering of sections used in this article may therefore be subject to slight alteration.

†It is intended to publish, in the next issue of ACCOUNTANCY, an up-to-date version of a specimen balance sheet and profit and loss account, with notes and references to the Companies Act, on the lines of that given in our issue of August, 1945. This will indicate, in a manner suitable for ready reference, all the provisions of the Act in regard to accounts.

Directors

Any company is to be able to remove a director by an ordinary resolution, even though such removal constitutes a breach of the articles or of an agreement with the director, though in that case the director will have his right to claim damages. (Section 29.) The much discussed provision (Section 30) for the retirement of directors on attaining 70 years of age does not apply to private companies (except a private company which is a subsidiary of a public company): and as a company to which it does apply may, in effect, exclude the operation of the provision by appropriate articles, or may by a resolution in general meeting (for which special notice is required) appoint a director who is over that age, the restriction is not a very formidable one.

Directors may no longer be paid tax-free remuneration (Section 34): and a company may not make or guarantee loans to its directors, though to this there are exceptions, which include the case of an exempt private company and any company whose ordinary business includes the lending of money. (Section 35.) The provisions of Section 150 of the 1929 Act as to payment of compensation to directors for loss of office are considerably expanded, and the making of any such payment is now prohibited, except after disclosure to and approval by the members. (Section 36.)

A register of directors' holdings of shares and debentures in the company and any subsidiary or associated company is to be kept, which is to be open to inspection by any member or debenture-holder during a period before and after the annual general meeting. (Section 37.)

The accounts of a company are to show the aggregate amount of directors' emoluments, pensions and compensation for loss of office, including all relevant sums paid by the company's subsidiaries and any other person, as well as those paid by the company itself. (Section 38.) The requirements of Section 128 of the 1929 Act that the accounts should contain particulars of loans made to directors and officers are extended to (*inter alia*) loans made or guaranteed by subsidiaries. (Section 39.)

Secretary

The 1929 Act did not impose any obligation on a company to have a secretary, but the new Act provides that every company is to have a secretary: a sole director may not be the secretary, and anything required to be done by a director and the secretary cannot be done by one person acting both as director and secretary. (Section 26.) Particulars of the secretary are to be included in the register of directors and in the annual return.

General Meetings

The first annual general meeting need not be held in either of the first two years of incorporation provided it is held within eighteen months of incorporation. (Section 1.) This does not, of course, affect the requirements of Section 113 of the 1929 Act with reference to the holding of the statutory meeting. For an annual general meeting at least 21 days' notice must be given, unless all the members entitled to attend and vote agree to shorter notice. Twenty-one days' notice continues to be required for a meeting to pass a special resolution, and for any other meeting the minimum notice is now to be 14 days. In the case of meetings other than the annual general meeting, shorter notice may be given with the consent of a majority in number of the members entitled to attend and vote, if that majority holds not less than 95 per cent. of the shares which carry a vote. Provisions in articles for giving shorter notice than those above mentioned are to be void. (Section 2.)

Certain resolutions (see, for example, the notes under Auditors and Directors above) require special notice, which involves a 28 days' notice *to* the company, followed by due notice by the company to its members. (Section 2 (6).)

Articles may not exclude the right to demand a poll (except on the questions of electing a chairman or adjourning the meeting): nor may they fix the minimum of shareholders required to demand a poll above that specified in Section 4 (1) (*b*). Shareholders are given a statutory right to appoint a proxy, who need not be a member: and attention must be drawn to this right in every notice of a meeting. (Section 5.)

A prescribed minimum number of members may now require the company (*a*) to give notice to the members of a resolution intended to be moved at the next annual general meeting, (*b*) to circulate to members a statement (prepared by the requisitioning members) with regard to any matter to be dealt with at any general meeting. (Section 3.)

Prospectuses

The matters and reports which Section 35 and the 4th Schedule of the 1929 Act require to be disclosed in a prospectus are considerably increased and enlarged in the new Act. Reference should be made to Sections 61 and 62 for details of the changes; it may here be noted that the auditors' report is to deal with the assets and liabilities as well as profits and losses, and the report on profits is to cover the last five (instead of three) years. It is also to deal with the profits or losses and the assets and liabilities of subsidiaries.

Statements of experts (*e.g.*, valuers, accountants, engineers) are not to be included in a prospectus without their written consent (Section 63); if an expert's statement in a prospectus is untrue he may incur liability to pay compensation to persons subscribing on the faith of the prospectus. (Section 65.)

Prospectuses relating to shares or debentures which are in all respects uniform with existing shares or debentures quoted on the Stock Exchange need not comply with the statutory requirements as to matters to be disclosed. In the case of small or restricted issues, where a quotation is being applied for the Stock Exchange may be asked for a certificate of exemption; if this is given, then provided the particulars required by the Stock Exchange are published, compliance with the statutory requirements is not necessary. (Section 64.)

Allotments of shares or debentures offered by a prospectus may not be made until the third day after the issue of the prospectus; and applications for the shares or debentures may not be withdrawn for a further three days (Section 59). Where a prospectus states that application has been or will

be made for a quotation, an allotment is to be void if the application to the Stock Exchange has not been made within two days after the issue of the prospectus, or if it is refused within a specified time; and in such a case any money received is to be returned to the subscribers. (Section 60.)

Shares

If all the issued shares of a class are fully paid and rank *pari passu* for all purposes they need no longer have distinguishing numbers. (Section 69.)

Where shares are issued at a premium, the amount of the premiums is to be transferred to a share premium account. This may be utilised for certain purposes only (*e.g.*, paying up unissued shares which are to be issued as bonus shares or writing off preliminary expenses); it may not be made available to the members in the form of a dividend. (Section 72.)

Subsidiary Companies

The definition of a subsidiary is contained in Section 18; it is much more elaborate than the old definition in Section 127 of the 1929 Act, and too complex to attempt to summarise here.

A subsidiary company may not hold shares in its parent company; this does not apply when the subsidiary is holding as trustee for a third party. As regards shares in a holding company held by its subsidiary on the coming into force of this new prohibition, the subsidiary may continue to hold the shares but cannot vote in respect of them. (Section 80.)

Winding-up

The declaration of solvency required to be made by the directors in order that a voluntary winding-up may be a members' winding-up must now embody a statement of the assets and liabilities of the company; and it will not be effective unless the resolution to wind up is passed within five weeks of the declaration being made. (Section 94.)

The priority in a winding-up given to debts for wages is to extend in all cases to a maximum of £200, and the relevant period of service is in all cases to be the four months preceding the winding-up. The distinction in these respects between clerks and workmen is abolished. (Section 91.)

Acts which constitute a fraudulent preference are to be void if done within six (instead of three) months before a winding-up (Section 92). Floating charges void under Section 266 of the 1929 Act are now to be void if created within twelve (instead of six) months before the winding-up. (Section 93.)

Private Companies

The freedom from the obligation to include a copy of the accounts in the annual return no longer applies to every private company but only to a private company which is an "exempt private company." The conditions which require to be satisfied before a private company can qualify as an exempt private company are set out in Section 54 and the 3rd Schedule and are of too detailed and complex a nature to make summary practicable. It may be said that, generally speaking, the private company which represents a small family business, and any other private company in which (with certain necessary exceptions) all the shares are beneficially owned by the registered holders and no other company is a shareholder or director will be an exempt private company. Such a company, in addition to its exemption from the obligation to file accounts, is also free from the restrictions on the making of loans to its directors and is not subject to the new requirements as to the qualification of the auditor.

Any private company is now required to have at least one director, and its members and debenture-holders must be sent a copy of the balance sheet without charge.

Minorities

Shareholders who complain that the affairs of the company are being conducted in a manner oppressive to them may now petition the Court, which with a view to bringing to an end the matters complained of, may make such order as it thinks fit, including an order that any member's shares are to be purchased (Section 9). Shareholders petitioning for the winding-up of a company on the ground that it is just and equitable may be entitled to the order although there is some other remedy open to them, unless the Court is of opinion that they are acting unreasonably in not pursuing their other remedy. (Section 90.)

Receivers and Managers

Part IV of the Act contains provisions whereby, when a receiver is appointed on behalf of debenture-holders, the officers of the company are to furnish him with particulars of the company's assets and liabilities and of its creditors. This statement is to be filed with the Registrar, and a summary of it sent to the debenture-holders. An abstract of the receiver's receipts and payments for every year is also to be filed, and copies sent to the company and the debenture-holders (Sections 84, 85). A receiver appointed out of court, who is usually under the terms of the debentures the agent of the company, is nevertheless to be personally liable on his contracts in the same way as a receiver appointed by the court, and is to have the same right of indemnity out of the assets. (Section 87).

Investigations

The provisions (Sections 42-49) conferring enlarged powers on the Board of Trade to investigate the affairs or the ownership of a company have not been referred to because, however important they may be as constituting some measure of public control in regard to improperly run companies, they are provisions which primarily concern the Board of Trade and will have little application to the vast majority of companies.

Memorandum of Association

Reference should perhaps be made to Sections 76 and 77 whereby the objects and conditions contained in the memorandum of association may now be altered by a special resolution of the company without the necessity of the Court's sanction, though dissenting shareholders or debenture-holders may apply to the Court to have the alteration cancelled.

The reader is again reminded that (at the time of writing) the new Act is not yet in force, and statements in the foregoing notes which indicate or imply that the law is now as provided by the new Act are, of course, to be read accordingly.

Exchange Control and the Registrar

By A. T. PURSE, LL.B., A.C.I.S.

The control of the transfer of stocks and shares and other securities, and payments thereon, which was introduced during the war to conserve national resources, has hitherto been carried out by Defence (Finance) Regulations under the Emergency Powers (Defence) Acts and the Supplies and Services (Transitional Powers) Act, 1945. In order, however, to put exchange control on a peace-time basis and modify the system to meet present needs, the Exchange Control Act, 1947, was passed in March last.

The Act will come into force on the appointed day, which, it has been announced, will be October 1, 1947. Thereafter the machinery of control will operate under the Act and Treasury Orders made under it, instead of the present Regulations.

Meanwhile, an administrative series of Notices affecting securities has been issued by the Bank of England drawing attention to the law which will apply from the appointed day and giving certain exemptions, permissions, directions, etc., by virtue of powers delegated by the Treasury. There are seven of these "E.C. (Securities)" Notices, and numbers 6 and 7 contain instructions to registrars, company secretaries, and others concerned regarding the issue and transfer of securities, and payment of interest and dividends, respectively.

Changes in the System

The new rules re-enact those at present in force, but there are some important changes. In particular, the power to require foreign securities owned by residents in this country to be sold to the Treasury has been abandoned, although this does not affect securities already acquired by or placed at the disposal of the Treasury under the Financial Powers (U.S.A. Securities) Act, 1941.

On the other hand, a new measure of control is introduced over bearer securities (with certain specified exceptions), securities on which interest or dividends is payable by coupon, registered securities issued by a registrar outside the "scheduled territories" (as defined below) and registered securities issued by a registrar within the scheduled territories which, without the consent of that registrar, can be transferred to or in a register outside the scheduled territories. (An example of the last class is the Electrolux Corporation, as the securities of this concern, although on the London register, can be transferred in New York.)

Unless the Treasury otherwise permit, the foregoing, if physically held in the United Kingdom, must be deposited with an "authorised depositary," that is to say, a person appointed by order of the Treasury to receive securities into deposit. Authorised depositaries are the Bank of England, the Share and Loan Department of the London Stock Exchange, and the offices in the United Kingdom of the various banks. In addition to their authority to receive securities into deposit, authorised depositaries may in certain circumstances approve forms and give declarations relating to securities.

Until deposited, these securities cannot be bought, sold or otherwise disposed of, and holders will not be able to collect the capital or income in the United Kingdom.

Canadian securities issued by a United Kingdom registrar need be deposited only if they are certificates of Canadian Celanese, Ltd., the International Nickel Company of Canada, Ltd., or Monterey Railway Light & Power Company.

After the appointed day, residents in the United Kingdom will be able, through their U.K. bankers or brokers, to realise their securities payable in any foreign currency, except Canadian dollars, and reinvest the proceeds in securities expressed in the same currency, provided the "switching" is completed within two months. It will also be possible to deal in such securities in the regular stock markets in the United Kingdom.

Definitions

Certain changes in nomenclature are made by the Act. The "sterling area" becomes "the scheduled territories." These comprise the British Empire (excepting Canada and Newfoundland), British Mandated Territories, British Protectorates and Protected States, Iraq, Transjordan, Iceland and the Faroe Islands. (Egypt and the Sudan are also included in the Act and the Notices, but by S.R. & O. 1947, No. 1413, those countries were excluded from the sterling area, so presumably they will not form part of the scheduled territories.) A "non-resident" is a person who is resident outside the scheduled territories.

"Securities" includes, *inter alia*, stocks, shares, debentures, letters of allotment which may be renounced and letters of rights.

"Prescribed securities" are securities on which capital moneys, dividends or interest are payable in Canadian dollars, Newfoundland dollars, Swedish kronor, Swiss francs or U.S. dollars, or in respect of which the holder has an option to require payment in any of those currencies.

A "Subsidiary register" is a register in the scheduled territories the securities of which can, without the consent of the registrar, be transferred to or in a register outside those territories.

"Temporary recipients" are persons who may in certain circumstances withdraw deposited securities, or give declarations relating to or otherwise deal in or with securities. They are persons, firms and corporations in the United Kingdom who hold principals' licences, or are exempted, under the Prevention of Fraud (Investments) Act, 1939, members of recognised Stock Exchanges, firms of solicitors in the United Kingdom, the Public Trustee and the Accountant-General of the Supreme Court.

The Issue of Securities

Bearer Securities

Treasury permission is required for the issue of a bearer securities or coupon, or for the alteration of any document so that it becomes a bearer certificate or coupon. Letters of allotment or rights which have

been issued with permission may, however, be "split" without further authority.

Issue of Securities to Non-Residents

Section 8 of the Exchange Control Act provides that except with Treasury permission, no person shall in the United Kingdom issue any security to a non-resident, or to a nominee for a non-resident. The same restriction applies to the issue of securities *anywhere* if they are to be registered in the United Kingdom.

Declarations

On the issue of securities, the "prescribed evidence" must be produced to the person issuing the security as to the residence of the person to whom it is to be issued and of his nominee, if any. This evidence is Declaration 2 on revised Form D (see below) with the word "transferee" suitably altered, and signed by the applicant or his agent.

If Declaration 2 cannot be made, Declaration 2A will be used, signed by an authorised depositary or temporary recipient.

The rules prescribed in the Bank of England Notices do not affect the necessity of obtaining Treasury permission to make an offer for sale or issue under Regulation 6 of the Defence (Finance) Regulations, 1939, or under any order under Section 1 of the Borrowing (Control and Guarantees) Act, 1946.

Transfer of Securities

New forms for the transfer of securities will be used after the appointed day and supplies of these may be obtained through banks and brokers. The notice announcing the appointed day will contain transitional arrangements regarding (i) the acceptance after that date of Declaration D1 and D2 and authorities given before that date, and (ii) the use after that date of the Declarations already printed on forms of transfer.

The following are forms appropriate to the transfer of securities :—

Form D for transfer of :

(*a*) securities which are registered in the scheduled territories and are not (i) in a subsidiary register, or (ii) payable as to interest or dividends by coupon, or (iii) prescribed securities.

(*b*) Letters of allotment which may be renounced, letters of rights and scrip certificates to bearer issued in the United Kingdom.

Form D may be attached to or printed on the form of transfer. It contains declarations on the lines of the present declarations to establish that neither the transferor nor the transferee is a non-resident or is acting as nominee for a non-resident. Provided the declarations are made by an authorised depositary to this effect, the transfer may be registered—complications only arise where transactions with non-residents are involved, or where a "deposited" or "prescribed" security is concerned. If Form D is not authorised by an authorised depositary, it may be registered if it is completed as to Declaration 1 or 1A and Declaration 2 provided that the address to be entered in the register is in the United Kingdom. If not accompanied by Form D, the transfer must be authorised by the Bank of England.

Registrars may give effect to forms of transfer received from any of the Scheduled Territories outside the United Kingdom which are accompanied by declarations substantially in the terms of Declarations 1 and 2 signed by local banks.

Form BA is for transfer of securities (except prescribed securities) which are :

(*a*) bearer (other than letters of allotment which may be renounced, letters of rights or scrip certificates issued in the United Kingdom) or

(*b*) payable as to interest or dividends by coupon, or

(*c*) registered in a subsidiary register, or

(*d*) registered outside the scheduled territories.

The form provides for authorisation by an authorised depositary.

Form BUK is for transfer of prescribed securities. It must be marked "Deposit not required," and must be authorised by an authorised depositary except where it is completed as to Declaration 1 or 1A and Declaration 2 and the address to be entered in the register is in the United Kingdom.

A security on which interest or dividends are not payable by coupon may be transferred from a register in the United Kingdom to a register in another part of the scheduled territories and conversely, provided neither register is a subsidiary register and that the names and addresses registered for the holder remain unchanged. All other transfers between a United Kingdom register and a register elsewhere must be authorised by the Bank of England.

Transfers by Operation of Law

Transfers by operation of law, as on death, insanity, etc., may be given effect to without permission, provided that an address outside the scheduled territories may not, except in the circumstances stated below, be entered without evidence of the permission of the Bank of England.

Registration of Addresses

The permission of the Bank of England is required for the entry in a register in the United Kingdom of an address outside the scheduled territories except :

(*a*) where it is the transferee's address in any form of transfer authorised by an authorised depositary or accompanied by Form D or BUK similarly authorised ;

(*b*) where the address appears in a form of application for shares or a form of request accompanied by Declaration 2A duly authorised ;

(*c*) on a request to substitute another address in the same country as that already recorded ;

(*d*) on transfer from another register in the scheduled territories, provided the address is the same as that recorded in the other register.

Mandates

A registrar may record a mandate given by a non-resident in favour of another resident in the same country or a resident in the scheduled territories, but the permission of the Bank of England must be obtained for any other mandate given by or in favour of a non-resident.

Interest, Dividends and Capital Repayments

So far as securities which are registered as to both principal and dividends in a register which is not a subsidiary register are concerned, warrants for dividends or capital repayments may, as hitherto, be despatched to addresses within the scheduled territories *without formality*. This is so whether the securities are registered in the names of residents or non-residents.

The permission of H.M. Treasury is required for payments to non-residents, and in order that permission may be obtained, registrars or company secretaries must, before despatching the warrants, lodge with the paying bank schedules containing particulars of the warrants. These must be signed by the registrar or company secretary and must embody a declaration that the rules regarding the dispatch of warrants, mandates and recording of addresses outside the scheduled territories have been complied with. The lodgement of the schedules will be regarded as an application for permission to effect payment, and no further formalities are necessary so far as the registrar or company secretary is concerned.

The Bank of England should be consulted before warrants for securities registered in a subsidiary register are sent to addresses in the United Kingdom. Capital repayments on such securities, or on securities registered as to principal only, coupons and drawn bearer securities may only be paid to an authorised depositary or temporary recipient.

Interest, dividends and capital repayments by United Kingdom companies controlled by non-residents cannot be paid without the permission of the Bank of England, and the balance sheet and profit and loss account must be submitted to the Bank, together with the schedules of payments to non-residents, if any, for authorisation.

Where capital repayments, whether in sterling or in foreign currency, are being made otherwise than as provided in the original terms of issue, by resident borrowers or issuers, or such repayments are being made in sterling through the medium of a paying agent in the United Kingdom, the registrar, company secretary or paying agent concerned should apply in writing to the Bank of England before making any announcement or any repayment or dispatching any warrants.

TAXATION

The Finance Act, 1947

The Finance Act is very different in many respects from the Bill introduced originally. The clauses dealing with benefits to directors and employees have been re-drafted, as already explained in our August issue.

Very late in the progress of the Bill, the following important amendments were incorporated:

Profits Tax—Industrial and Provident Societies

As reported in our last issue (page 172), these societies are given the privilege of exemption from the additional 7½ per cent., being treated as making no distributions to proprietors. This affects in the main co-operative societies, who will pay 5 per cent., as compared with their competitors (companies) who remain liable to 12½ per cent. on profits distributed. The only other privileged body is the building society, whose Profits Tax, including any distribution charge, is not to exceed 3 per cent. (against the old 1½ per cent.) of its profits before deduction of interest paid.

The arguments used to justify these special privileges were:

(a) Building Societies: There is little distinction between share and loan capital.

(b) Co-operative Societies: Most of the share capital is passed on to the Wholesale Society and invested by it in Government securities. That used in trading is held by small people as a sign of membership, and is accepted to encourage thrift rather than for use in the business. As some capital is used in trading, however, the societies ought to pay more than building societies.

In our Professional Note last month we made it clear that these arguments were lost upon us.

Profits Tax—Controlled Companies

The bottom limit on directors' remuneration is increased to £2,500 (from £1,500). The effect is that in director-controlled companies, the remuneration paid will be allowed up to these maxima:

	Maximum Remuneration
Profits up to £16,667	£2,500
Profits over £16,667, not exceeding £100,000.	15 per cent. of the profits
Profits over £100,000	£15,000

Remuneration of whole-time service directors is, of course, allowed, and not included in the above restrictions. The new limit operates from January 1, 1947.

Profits Tax and Directions under Section 21, F.A., 1922

Under the original Bill, if income was apportioned for sur-tax purposes under Section 21, Finance Act, 1922, and all the persons to whom it was apportioned were individuals, no Profits Tax was to be charged on the company. The amendment by the addition of sub-section (3) is that where an apportionment is made under Section 21 and some of the members to which the income is apportioned are bodies corporate, the profits apportioned to individuals shall escape Profits Tax. Where there is an original apportionment and a sub-apportionment, account shall be taken only of the persons to whom income is finally apportioned.

Profits Tax—Distributions in Winding-up

In considering whether a distribution in winding-up is capital, premiums received in cash on share capital are to be regarded as capital, and only the excess will be regarded as a distribution liable to the 7½ per cent. profits tax.

Profits Tax—Dividends

The period within which a dividend can be declared and regarded as paid in the year for which it is expressed to be paid is extended to nine months (or if there are interests abroad, 12 months) after the date of the balance sheet, provided notice is given within six months from the passing of the Act. The Commissioners may

extend the period. This may be important in respect of dividends paid partly out of 1946 profits.

Where increased dividends are paid after April 15, 1947, in respect of a period falling wholly or partly after January 1, 1947, the dividends are treated as dividends of the period in which they are declared rather than of the period to which they relate. In the event of the capital for the latter period being greater than that in the preceding period, the profits of the preceding period are to be deemed to be proportionately increased, so that the excess subject to Profits Tax is proportionately reduced. This is only reasonable as the profits earned by the use of an increased capital should not penalise the company.

Where directors publicly announce a dividend, the dividend is taxable by reference to the date of the announcement, irrespective of delay in payment or declaration by a general meeting.

Profits Tax—Amalgamations

Distributions of shares for the purposes of a *bona fide* amalgamation or reconstruction are not to be regarded as distributions for Profits Tax.

Profits Tax—Groups of Companies

Where a principal company opts for group treatment and charges out to the subsidiary company part of the Profits Tax, the subsidiary will be able to charge such tax against its profits for income tax purposes.

Estate Duty

The war-time concession, whereby relief from estate duty is given on bearer securities compulsorily registered under the Defence (Finance) Regulations or Exchange Control Act where the owner is domiciled abroad, is made statutory.

Legal Profession

The duties on the admission to the legal profession, etc., are repealed.

(See ACCOUNTANCY, August, page 173.)

Stamp Duties

Stamp duties will not be charged on transfers of stocks issued by corporations carrying on nationalised undertakings and stocks guaranteed by the Treasury. This brings them into line with Government securities.

Transfers

Transfers of shares, etc., are allowed to be stamped at the old rate after August 1, 1947, if the transfer gives effect to a sale made before that date and does not give effect to a sale made after that date, and/or the instrument or document of title had to be sent to Great Britain from overseas, or the instrument was lodged for certification before the said date.

(See ACCOUNTANCY, August, page 172.)

Conveyances, Transfers or Leases to Charities

These will enjoy the old rates of stamp duty.

Benefits to Employees

See page 206 of this issue.

Bonus Shares

As reported in our August number (page 172) an issue solely for the purpose of carrying out a *bona fide* amalgamation or grouping of two or more companies escapes the stamp duty on bonus issues.

Small bonus issues are exempted, *i.e.*, where the bonus does not exceed 5 per cent. of the consideration received by the company.

Taxation Notes

Higher Rates of Succession Duty

Although rarely met, the additions to the ordinary rates of succession duty levied in certain cases should not be overlooked. Hitherto these additions to the ordinary rates were ½ per cent. in the case of lineal issue or ancestors and 1½ per cent. in the case of brothers and sisters and other descendants, and also in the case of strangers. The additions will now be doubled (along with all legacy and succession duties).

The additions are payable on property which escapes estate duty, unless the property is exempted from ordinary legacy and succession duty, and arises in cases such as the following:

(*a*) Surrender of a life interest under a settlement made by deed. If the life tenant survives five years, the additional duty is payable on his death.

(*b*) Mortgage by the life tenant and remainderman jointly of their interests in a settlement made by deed. The higher rates are payable on the mortgage when deducted for estate duty purposes.

(*c*) Policy of assurance on deceased's life settled and kept up by third parties for the benefit of volunteers.

(*d*) Nomination policy kept up by a husband for the benefit of his wife for life and then for the children, where the children surrender the policy on the wife's death.

It is emphasised that the higher rate includes the ordinary duty, so that in each of the above cases, if a "lineal" relative is not involved, the rate is now 23 per cent. It usually arises only on the release of a life interest, including advances to a remainderman under express powers.

The higher duties do not apply to the widow or widower, to charities or public bodies, to leaseholds passing under a will or intestacy or to property chargeable with account duty (seldom met to-day as it ceased in 1894).

E.P.T. Post-War Refunds and Capital Employed

An amendment to the Finance Bill, designed to bring in E.P.T. refunds as assets at January 1, 1946, was rejected. We do not quite follow one aspect of the argument of the Solicitor-General in speaking against the amendment. While accepting the Financial Secretary's suggestion that a business cannot use money before it receives it, we fail to appreciate the Solicitor-General's statement that the effect would be to charge the Revenue with interest at 8 or 10 per cent. on the refund, whereas the Revenue could not charge interest on E.P.T. or income tax in arrear. It seems to us that, as E.P.T. and income tax are deductible as debts on their due dates, the company is, on a similar argument, in effect being charged 8 or 10 per cent. on money it is using in the business.

It does, however, clear the air, in that it is quite clear that refunds can only be treated as capital employed as from the date of receipt, and then only if used in the business. We think, however, that as the refund must be used for the purposes of the business, it cannot be regarded as "excess cash"; the Act (Rule 3, Pt. II, 7th Sch. F. (No. 2) A, 1939) clearly refers to "moneys not required for the purposes of the business," not to "money not used in the period" as the Inland Revenue appear to contend.

Deductions in Computing Profits

How many readers have considered Section 209 of the Income Tax Act, 1918? It is a peculiar section.

" In arriving at the amount of the profits or gains for the purpose of income tax—

(*a*) no other deductions shall be made than such as are expressly enumerated in this Act ;

(*b*) no deduction shall be made on account of any annual interest, annuity or other annual payment to be paid out of such profits or gains in regard that a proportionate part of the tax is allowed to be deducted on making any such payment.

(2) In arriving at the amount of profits or gains from any property described in this Act, or from any office or employment of profit, no deduction shall be made on account of diminution of capital employed, or of loss sustained, in any trade or in any profession, employment or vocation."

Lords Parker and Sumner made some apt quotations and observations on section 159 of the 1842 Act (which was the same as section 209 as given above), in *Usher's Wiltshire Brewery* v. *Bruce* ((1915) A.C., at p. 458) cited and applied in *British Insulated, etc. Cables* v. *Atherton* ((1926) A.C. 205) : " The expression ' balance of profits or gains' implies . . . something in the nature of a debit and credit account, in which the receipts appear on the one side and the costs and expenditure necessary for earning those receipts on the other side . . . Where a deduction is proper and necessary to be made in order to ascertain the balance of profits . . . it ought to be allowed . . . provided there is no prohibition against such an allowance. . . ." " Trade incomings are not profits . . . till trade outgoings have been paid or allowed for and deducted. Rule 1 of the First Case of Schedule D does not, however, leave matters to the taking of a commercial account *simpliciter* ; it provides that the duty shall be ' assessed, charged and paid without any other deduction than is hereinafter allowed ' [the present rule is differently worded but means the same] and this must mean . . . without any other deductions in the computation of the sum on which the duty is charged." They then stated what is now section 209 and went on : " Virtually both provisions mean that in computing the sum which when ascertained is to be charged with duty, only the enumerated deductions shall be lawfully allowable.

" The paradox of it is that there are no allowable deductions enumerated at all, and there is in words no deduction allowed at all unless indirectly . . ."

It is noteworthy that the section provides that no other deductions shall be made, in arriving at the amount of the profits, than such as are expressly enumerated in the Acts, yet, in general, so far as businesses are concerned the Acts provide for few " deductions " ; the most effective Rule is Rule 3 of Cases I and II, Sch. D, which provides that, " in computing the amount of the profits," the items enumerated therein shall *not* be deducted.

There are also other prohibitions in later Acts.

Specific allowance is made for—

(*a*) Contributions to certain superannuation funds (s. 32 (1), F.A. 1921) ;

(*b*) Discounts, dividends, etc., paid by co-operative societies, etc. (s. 31, F.A. 1933) ;

(*c*) Contributions under certified schemes for the rationalisation of industry (s. 25, F.A. 1935) ;

(*d*) N.D.C. (Profits Tax) (s. 25, F.A. 1937) ;

(*e*) E.P.T. (s. 18, F. (2) A. 1939 ; Fifth Sch., Pt. IV—9, F.A. 1940) ;

(*f*) Certain payments re approved arrangements for the concentration of industry, etc. (s. 18, F.A. 1941) ;

(*g*) Certain expenditure on patents and on trade-marks and designs (ss. 39, 62, I.T.A. 1945).

It is feared that profits, under s. 209, would have an odd meaning, were it not that it is recognised that Rule 3 (*a*), Cases I and II, by its double negative gives an allowance in saying : " . . . *no* sum shall be deducted in respect of any disbursements or expenses, *not* being money wholly and exclusively laid out, etc." Yet, is this a deduction " expressly enumerated ? " A curious position. Section 209 (1) (*b*) is clearer ; it fits into the picture of deduction at source, and ties up with General Rules 19 and 21, etc. Section 209 (2) still prevents any deduction for capital wastage, but the Income Tax Act, 1945, has alleviated the position by allowing deductions in charging the profits when ascertained. The difference between a deduction in ascertaining profits and one in charging them is important in many ways, as is well illustrated in the treatment of wear and tear.

Benefits to Employees

The report of the proceedings of the annual general meeting of the Association of Superannuation and Pension Funds includes an interesting account of an interview between representatives of the Association and the Board of Inland Revenue and Chief Inspector of Taxes, at which the Association were informed that—

(*a*) No change is contemplated in the conditions under which approval is given to Funds under section 32, Finance Act, 1921.

(*b*) The main purpose of the clauses in the Finance Bill was to defeat certain devices employed to avoid tax, *e.g.*, payments into a Provident Fund by employers to the credit of directors or employees, such sums being later drawn out as a lump sum which escaped taxation. The yearly premium that would have to be paid for such a benefit under an insurance contract, will be regarded as income of the beneficiary, but the lump sum will still not be taxable.

(*c*) There is no intention, in genuine cases, to submit lump sum payments for loss of office, to taxation, *e.g.*, where they are granted as a result of nationalisation schemes, reorganisation or ill-health ; discretion is given to the Revenue to deal with each case on its merits, and the Department will deal sympathetically with such cases so long as there is no unjustifiable attempt to escape taxation.

Double Taxation Agreement with Eire

The Anglo-Eireann Agreement of 1926 has been amended to give effect to the new rule contained in Section 52, Finance (No. 2) Act, 1945, whereby companies which have received double taxation relief are required to deduct from dividends paid by them the full standard rate of United Kingdom tax, without any deduction for the double taxation relief received.

The effects of the amending agreement, which is to take effect for 1948-49 and subsequent years, are :

(i) In the case of a person who is resident in Eire and not in Great Britain or Northern Ireland, the exemption from British tax in respect of such dividends will be at the net United Kingdom rate applicable to the dividends ;

(ii) In the case of a person who is resident both in Great Britain or Northern Ireland and in Eire (who, under the 1926 agreement, is entitled to relief in both countries at one half of the lower of the two appropriate rates) the relief from British tax shall not exceed the net United Kingdom rate applicable to such dividends, if the taxpayer is chargeable to tax at the standard rate only. If he is a sur-tax payer, the relief shall not exceed the sum of (a) the said net United Kingdom rate, and (b) the rate ascertained by dividing the amount of British sur-tax by the total income for the year in question.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Income-tax—Error or mistake—Assurance company, not having its head office in U.K., assessable under Rule 3 of Case III, Schedule D—Investment income exempt from U.K. tax and excluded from calculation of what deemed to be U.K. proportion of total income—Claim that whole amount of exempted income should be deducted from U.K. proportion of total investment income—Income Tax Act, 1918, Schedule D, Case III, Rule 3.

C.I.R. v. *Australian Mutual Provident Society* (House of Lords, March 31, 1947, T.R. 129) was noted in our issue of July, 1946. The Society has its head office in Sydney and a branch office in London and, as it transacts life assurance business in the United Kingdom, it is chargeable in respect of its income from investments under Rule 3 (2), Case III of Schedule D, which prescribes that the sum to be charged is to be one which

> "bears the same proportion to the total income from those investments" (*i.e.*, of the life assurance fund) "as the amount of premiums . . . from policy-holders resident in the U.K. and from policy-holders resident abroad whose proposals were made to the company at or through its office or agency in the U.K. bears to the total amount of the premiums received by the company,"

but, by a proviso to sub-rule (2),

> "in the case of an assurance company having its head office in any British possession, the Commissioners of Inland Revenue may, by regulation, substitute some basis other than that herein prescribed for . . . ascertaining the portion . . . to be so charged . . ."

and this proviso had been put into operation.

The appeal was in respect of the years 1936-37 to 1939-40, and the position for the year 1936-37 may be taken as typical. The total investment income of the Society for that year was £4,145,067, and included in this total was income amounting to £72,354 which was exempted from taxation under I.T.A., 1918, Section 46, Schedule C, Rule 2 (*d*) or Schedule D, Miscellaneous Rules No. 7. The proportion of the £4,145,067 computed to be liable under the proviso to sub-rule 2 of Rule 3 of Case III was £230,684; and the case came before the House of Lords to determine whether the chargeable proportion should be a fraction of the sum obtained by deducting £72,354 from £4,145,067, or whether the same fraction should be taken of the £4,145,067 and the whole £72,354 deducted.

The Revenue contended for the former method and the Society for the latter; but their Lordships agreed with neither. In the words of Lord Simon, "a curious and somewhat embarrassing situation" was disclosed with the result that two questions had to be decided, first what was the proper construction of Rule 3 in a case where an assurance society held exempt investments and, secondly, what was to be done where the Revenue had in effect conceded that the existence of exempted income made a difference to the calculation.

Lord Simon held that *Hughes* v. *Bank of New Zealand* (1938, A.C. 472, 21 T.C. 472), and *Sinclair* v. *Cadbury Bros., Ltd.* (1933, 18 T.C. 157), had no application:

> "Once it is accepted that Rule 3 . . . is one which taxes a conventional sum calculated as the rule directs, it becomes reasonably clear that the sum taxed is not varied by inquiring whether one of the elements in the calculation contains income from exempted investments."

Lord Wright agreed; and in the course of his judgment declared that Rule 3 was "an artificial mode of charging the general profits of the British business." Lord Porter declared the cases above mentioned had no application where the subject of charge was a "notional sum calculated in a conventional way"; and he did not think it mattered whether the tax-exempt investments were assets of the U.K. branch or not. He mentioned, however, the anomalous position which would arise where a non-resident company chargeable under Rule 3 had invested the whole of its life fund in tax-exempt securities. He also pointed out that the charge under Case III was not limited to investments income, but was "in respect of profits of an uncertain value" as well as "of other income described in the rules applicable to this case." If it were necessary to decide the point, he held that the Revenue method was the logical course. Lords Normand and Simonds did not deliver separate judgments. Their Lordships, therefore, reversed the decision of the Court of Appeal and restored that of Macnaghten, J. As regards the future, in the words of Lord Porter,

> "it is not, I think, material that the reasoning of your Lordships, including my own, would lead to the withdrawal even of the relief given by the Special Commissioners and by the learned judge."

In fact, the Revenue has recovered the ground abandoned after the *Bank of New Zealand* decision, and a new principle has been established.

Two errors in the Report may be pointed out. In the left-hand column of p. 131 (D), the word "not" has been omitted before "exempt from income tax," whilst on p. 133 (C) in the left-hand column Lord Wright is reported as having mistakenly regarded £72,354 as value instead of as income.

Schedule D, Case I—Brewery company—Licensed houses—Cost of rehabilitation—Cost increased owing to houses being kept open during the work—Whether such increased cost capital outlay or admissible as deduction in computing profits of trade—I.T.A., 1918, Cases I and II, Rules 3 (a) and 3 (g).

Mann, Crossman and Paulin, Ltd. v. *Compton* (K.B.D., March 31, 1947, T.R. 143), involved an important principle. The company owns a considerable number of licensed houses and in 1938 resolved upon a large scheme for repairing and improving some 238 of them. In order to preserve its trade, the company kept the houses open during the rehabilitation period and the cost of the work was thereby largely increased. The Revenue had allowed the whole of the cost incurred in connection with repairs, and the sole question was whether the increase in the cost of the additional work, *i.e.*, of the improvements, caused by the houses being kept open, should be regarded as revenue or capital expenditure. For the company, it was contended that the extra cost added nothing to the value of the new work and should be allowed. The Special Commissioners had decided otherwise, and Atkinson, J., affirmed their decision.

His judgment was an interesting review of the case law upon the subject. He held that the question was one either of fact or of law. If it was one of fact, there was evidence to support the Commissioners' decision. If it was one of law, the substance of his conclusion was contained in the following words:

> "This expenditure was incurred to get the work done, true in a particular way, but still it was part of the cost of the work which was going to be 'an enduring benefit to the trade.'
>
> "It resulted in the acquisition of an asset, albeit acquired in a particular way,"

and, pursuing this argument, he asked whether a

premium paid for immediate delivery of a new machine could be excluded from costs otherwise charged to capital and claimed as a revenue expense because it enabled profits to be made earlier. This question illustrated the dangerous principle involved in the company's claim.

Shorter Notices

E.P.T.—Income-tax—Disallowance of director's remuneration—Costs of successful appeal to Board of Referees—Whether deductible in computing profits.

(1) *Smith's Potato Estates, Ltd.* v. *Bolland*; (2) *Smith's Potato Crisps* (1929), *Ltd.* v. *C.I.R.* (C.A., April 2, 1947, T.R. 171), involved questions similar to those in the *Rushden Heel Co., Ltd.* case, although there was, as pointed out in the note in our March, 1947, issue, a special factor in favour of the companies in that had the appeal to the Board of Referees not been made the parent company, as a public company, would or might have had to enforce Section 34 of F.A., 1941, and recover from the manager the amount of disallowed remuneration. The Special Commissioners had rejected the argument; but Atkinson, J., had held that if the expense of getting rid of a troublesome director was admissible (*Mitchell* v. *Noble*, 1927, 11 T.C. 372), the expense of retaining an employee vital to the business must also be. A unanimous Court of Appeal followed their decision in the *Rushden Heel* case; but, after argument, leave was given for a separate appeal to the House of Lords.

Notwithstanding the Master of the Rolls' criticism of the above dictum of Atkinson, J., upon the ground that the cost of getting rid of a troublesome director was "a commercial expense"—a description which would seem to be equally fitting to the cost of retaining valuable services—this special factor in the case may well prove of decisive importance.

E.P.T.—Capital or income receipt—Seams of coal worked under mineral leases by colliery company—Part of leased area requisitioned for opencast working by Ministry of Works—Compensation—Whether compensation a trading receipt—Defence (General) Regulations, 1939, Regulations 51, 51A.

In *Waterloo Main Colliery Company, Ltd.* v. *C.I.R.* (K.B.D., March 24, 1947, T.R. 111), the Special Commissioners had held that compensation paid in respect of land taken over for opencast working, representing expenditure in the preparing of works on the land taken over and lessees' loss of profits, was a trading receipt; and Atkinson, J., affirmed their decision. *Glenboig Union Fireclay Company* v. *C.I.R.* ((1922) 1 A.T.C. 142, 12 T.C. 427) was relied on for the appellant; but *Newcastle Brewery, Ltd.* v. *C.I.R.* ((1927) 5 A.T.C. 72, 12 T.C. 927) —"the rum case"—was held to apply. In the former there was complete sterilisation of a capital asset, whilst in the latter, as here, there was no such sterilisation, the State getting the coal and putting the company into the same financial position as if it had got it itself.

Publications

Taking Stock of the Stock Exchange

In an amusing novel published recently one of the characters, an eccentric elderly authoress, delivers herself of the following statement: "My poor husband was on the Stock Exchange. They tell each other risqué stories all day long. It is practically all they do. City men, you know!" An eccentric authoress may perhaps be forgiven for her ignorance, but when politicians and their dupes display an ignorance equally profound, it is clear that steps ought to be taken to clear away the fog of misapprehension. It is certainly true that no professional accountant can in these days afford to be other than well informed as to the nature and functions of the London Stock Exchange and the provincial Stock Exchanges.

Two recent and brief publications entitled "The Stock Exchange" are therefore particularly welcome. The first is by Mr. W. T. C. King, and may be regarded as authoritative since it is published for the Council of the Stock Exchange, London, by George Allen & Unwin, Ltd. (price 5s. net.) The second little handbook, by Mr. Harold Wincott, is published in the "Living in Britain Series," by Sampson Low, Marston & Co., Ltd. (price 4s. 6d. net.)

Mr. King's book is understandably non-controversial, and is quite elementary in its approach to its subject —if that term may be used without imputing the slightest denigration. The paper upon which it is printed is so good that—if the Stock Exchange Council will forgive such levity—it is almost reminiscent of *Esquire*. It is also interestingly illustrated.

The history, functions and government of the Stock Exchange are simply but adequately related, and happily the author describes in complete detail the machinery for dealing with a simple transaction entered into by a broker on behalf of a client. In the course of so doing he explains the mystery of "passing names" and other recondite matters. He also deals with those regulations which the Council of the Stock Exchange has thought fit to impose upon its members and, indirectly, upon the public, which are in advance of legal requirements. Not only should this admirably produced little book be upon the shelves of every practising accountant, but it contains information of great worth to the accountancy student in a form which is readily comprehensible, even by the least initiated.

Mr. Harold Wincott's long experience as a financial journalist and editor enables him to speak with considerable authority and acumen on City affairs, and his little book on the Stock Exchange I found most interesting. It is produced in conformity with what I believe are known as austerity standards, but this is more than compensated for by its racy and sometimes controversial style—though the author is always fair and is quite prepared to condemn constructively that which he thinks is worthy of condemnation.

He recounts the early history of the Stock Exchange at somewhat greater length than Mr. King, and most readers will chuckle when they read of a company contemporary with the South Sea Company which was formed "To carry on an Undertaking of Great Advantage but Nobody to Know What It Is." Financial moralists must ponder over the fact that "a certain Thomas Guy, son of a lighterman and in his early days a bookseller, speculated successfully in the stock of the South Sea Company and, in fact, partly because of this, died worth £500,000. Thanks to the South Sea Bubble, in fact, London has Guy's Hospital." A wise guy!

Mr. Wincott has interesting things to say about the half-commission man, and few will quarrel with the comparatively recent decision of the Council of the Stock Exchange to introduce more stringent regulations dealing with these gentlemen and their classification, registration, and basis of remuneration. He has also

some illuminating pages on the issue of bonus shares in capitalisation of reserves, which will please those of us who for many months past have had perforce to squirm at the fundamental ignorance displayed on this topic in the highest quarters. The author appreciates that the Stock Exchange must look forward to an increasing growth of business of small dimensions from the "little man," and suggests that since investors of this type have an unfortunate predilection for shares of low denomination, the Stock Exchange will have to do some hard thinking as to whether it is practicable to reduce the cost of investment. It is true, of course, that the office work required on a small transaction is probably just as great as is required in the case of a much larger transaction. Mr. Wincott points out that if a small investor buys shares quoted at 1s. 9d.—2s., the buyer needs a rise of nearly 20 per cent. before he begins to make a profit—and Mr. Wincott's estimate of 20 per cent. was calculated before the melancholy imposition of the double stamp duty which now obtains.

I have said earlier in this review that every practising accountant ought to be completely familiar with all the matters, whether of detail or otherwise, which are contained in these two little books, but I wish I could feel more confident that this was so. It has been suggested to me that in certain types of accountancy practices, particularly in the provinces, a knowledge of the workings of the Stock Exchange is not necessary. I entirely disagree. It is impossible to comprehend fully the machinery regulating the transfer of shares without understanding the Stock Exchange end of the business, and it is vitally necessary that all accountants should know and recognise any document of title for what it is and what it is worth. Quite apart from an accountant's ordinary duties as auditor of broker, jobber, banking house, or financial institution, he must always be ready to deal with the important and complex problems connected with a proposed issue of shares to the public. The requirements of the London Stock Exchange in connection with quotation, placings, new issues, etc., are precise and far-reaching, and a perusal of these little volumes will well repay the reader.

It has been my good fortune over a number of years to have close professional and personal contacts with members of the London Stock Exchange. I have always found them ready to seek advice and act upon it; stout-hearted and gay, even when the bottom falls out of the financial barometer; good sportsmen and excellent friends at all times. The war record of its members is well known, and I say in all seriousness that the Stock Exchange does not need to apologise for its existence.

E.B.

The Double Taxation Conventions. Volume I: **Taxation of Incomes.** By F. E. Koch. (Stevens and Sons, Ltd., London. Price £2 5s. net.)

It has long been recognised that duplication of the burden of direct taxation must operate in restraint of international trade, and before 1939 the League of Nations, in co-operation with the International Chamber of Commerce, had done much useful work in the preparation of draft Conventions on uniform lines designed to form the basis for bi-lateral and multi-lateral agreements. Inevitably, the heavy and almost universal increases in direct taxation rates during the war period aggravated the evil and made its solution a matter of urgency in the interests of the desirable post-war expansion of international trading relationships. A number of Conventions have already been executed and ratified, and more are in contemplation, so that the publication of the work under review is most opportune.

From the economic standpoint, the prime necessity is to relieve the profits deriving from international trading activity from the multiple burden, and Mr. Koch has wisely restricted his first volume to an exposition of the effects of the various income-tax Conventions, leaving the Conventions relating to estate duties for a later volume.

Even so, the task the author has undertaken is a formidable one, since he has found himself under the necessity of expounding the main aspects of the taxation systems of all the countries who are parties to the six Conventions with which he deals and of which it is his purpose to explain the practical working and the easing of previous onerous burdens that will ensue.

Such an undertaking requires a wide knowledge and diligent application. Mr. Koch is to be congratulated on the result he has attained. The book does not make easy reading, but that was not to be expected. As a work of reference, however, it is most informative and no practitioner who numbers among his clients trading concerns or private individuals with interests overseas can afford to be without it.

The work has been wisely planned to facilitate the issue of supplements—which will certainly be necessary as the number of the Conventions increases—and doubtless the author will gradually incorporate official practice, which has yet to be developed.

A. S. A.

Income Tax under Schedule E. By James S. Heaton, Incorporated Accountant. Second edition. (Jordan & Sons, Ltd., London. Price 15s. net.)

Although all taxation is very important at the present time, not the least important sector, in view of the large number of taxpayers affected and the prevailing high rate, is income tax under Schedule E. Moreover, the introduction of the "pay-as-you-earn" system comprised a major development in the machinery of assessment and collection under that Schedule. Although this system has now been in operation for some time, it is essentially but a grafting on the main stem of previous legislation. It is opportune, therefore, that the author should offer, as he says, an examination of the roots of the subject of income tax in respect of offices and employments as well as of its latest branches.

As regards the roots, the relevant legislation is discussed in detail in the light of a considerable volume of case law, ably chosen and marshalled. As regards the branches, a brief record of the introduction of the "pay-as-you-earn" system is provided, and this is of assistance in considering the provisions of the Income Tax (Employments) Act, 1943, and the Income Tax (Offices and Employments) Act, 1944, which are fully discussed. In addition, the present edition deals with the relevant provisions of the Finance (No. 2) Act, 1945, and the Finance Act, 1946, notably the provisions bringing the armed forces of the Crown under "pay-as-you-earn" as from the year 1947-48, various other provisions relating to matters of consequence to members of those forces, and the legislation introduced to deal with family allowances and national insurance contributions and benefits. The inclusion in the appendix of the Acts of 1943 and 1944 together with the regulations made thereunder is a material convenience and there is also now included a summary of the relevant provisions of those of the Statutory Rules and Orders giving effect to the double taxation agreements with various countries which were available up to the time of publication.

The practical nature of the work is indicated by the separate chapters devoted to lump sum payments and "tax-free" remuneration and by the discussion of such

pertinent questions, for example, as gifts and bonuses, money's worth, what constitutes payment, compensatory cash payments to Crown servants and recovery of payments disallowed for excess profits tax.

Altogether this is an instructive yet eminently readable book which may be recommended to both practitioners and students as a clear and concise exposition of a subject which will doubtless continue to be of wide application.

R. A. F.

FINANCE

The Month in the City

Three Per Cent.

The slide in the gilt-edged market which was plain enough a month ago gave way to open retreat which, by a paradox, was only arrested by the suspension of dollar convertibility. On the eve of the economic debate early in August, the balance of opinion in the City of London held that the gilt-edged market would find a new defence point at 3 per cent. for long-dated securities. That assumption was challenged by the fall in Old Consols at one time to 80 (to yield £3 2s. 6d. per cent.), though at their improved level of 85 the yield has fallen to £2 19s. 1d. per cent., while 3 per cent. Savings Bonds, 1960-70, stand at 99⅛ x.d. to yield £3 1s. per cent., and even a middle-dated security like 3 per cent. War Loan, 1955-59, yields £2 18s. 5d. per cent. to final redemption. The market was looking for some show of assurance from the Chancellor in the economic debate about the future of his cheap money policy. Instead, it received a weak statement that the fall in gilt-edged had occurred for sentimental rather than technical reasons, that he intended to make no alteration in short-term money rates and that in due course he would expect short-dated stocks in the gilt-edged list to readjust themselves to those rates. The market was quick to perceive that this was not an acceptable defence even of the *status quo*, and in the absence of any official support to absorb a continued flow of steady sales from industrial and private holders, the fall in prices has now eroded the 3 per cent. defence line. As a result, the fate of recent new issues made on out-of-date cheap money terms has been conspicuously unsuccessful. Scarcely a single deal has been recorded in that Hibernian "sport," North of Scotland Electricity 2½ per cent. stock, 1967-72, which was issued at par and is now nominally quoted at 95-100. The Leicester 2½ per cent. Conversion has left the docile public stag with another indigestible holding of 92 per cent. of the £1½ million offered a month ago. The new stock opened at 90-94 nominal, without any business recorded, and the National Debt Commissioners consequently have a substantial capital loss to meet, as a *quid pro quo* for enabling the Leicester Corporation to borrow on wholly unrealistic terms. In these circumstances, it is hardly surprising that money stocks, like Argentine and British railway stocks, have remained tolerably steady; but so much damage has been done to the Government's credit, that, despite all the assurances about the terms on which home rail stocks would be taken over, they now stand at a discount ranging up to 10 per cent., compared with the take-over prices.

Equities and Inflation

The break in the gilt-edged market has carried equity shares below the resistance points so beloved of the chart readers. In particular, the *Financial Times* industrial ordinary share index, which stood at 133·6 on July 15, fell to a new low of 113·8 on August 22. There is at present no clear resultant from the many forces which are at work in the equity share market, but it is significant that few investors now show much faith in the familiar argument that increasing inflation automatically ensures rising ordinary share prices. Increasing inflation is, by the Government's own admission, inevitable. But the possibility of an autumn budget, with heavier taxation on industrial profits, particularly that portion of such profits which is distributed in dividends; the increasing signs of the decline of the sellers' market overseas, and also to some extent in this country; and the more remote fear of the policy of increasing production for export and restricting the demand for raw materials at home to industries of prime essentiality—all these factors in combination suggest that some difficult weather still lies ahead for ordinary shares as a whole.

Dollars and Convertibility

At the moment of passing this issue of ACCOUNTANCY through the press, news comes that the British Government has informed the American authorities that we can no longer fulfil the obligation imposed upon us under the American Loan Agreement to allow holders of sterling acquired in current trade to convert into any other currency at their option—which in practice has meant to convert into dollars. The American loan to Britain has in the space of five weeks taken the full brunt of the world's dollar shortage. It was intended to meet the requirements of Britain and the sterling area until 1949 or 1950; in the event it has lasted 15 months. This is not the occasion for examining the economic causes of its rapid disappearance; but some comment on sterling convertibility, which has been associated with the extremely rapid rate of drawing on the loan since July, is certainly required, particularly since the general line of official comment on convertibility before July 15 suggested that there would be no undue strain in meeting it. The plain fact, of course, is that convertibility was an inevitable obligation, without which Britain could not secure essential imports or restore London to its former position as the world's banking centre. It would have been wiser, doubtless, to defer the obligation for a longer time than a year, but it could not be ultimately escaped. Criticism has been heard of the "generous" releases from old sterling balances to creditors like Egypt and India. Undoubtedly these releases have greatly added to the strain on Britain's dollar resources. Equally, however, those resources were provided on the understanding that they were to be used to cover the reasonable dollar requirements of the sterling creditors, and it would have been impossible under the terms of the loan agreement itself to have denied to creditors, who were themselves acutely short of dollars, a reasonable and proper share in the dollar resources which the loan made available. Whether the same can be said of some of the drawings which have been entailed on behalf of the Dominion Governments is another matter. In a sense the whole question is now scarcely more than academic, since in a month's time there will remain to meet a dollar deficit at the rate of between £600-£700 million a year, first, the sums available on the Canadian credit, secondly, the right to draw £80 million per annum in dollars from the International Monetary Fund (though an approach by Britain to the I.M.F. at present would not be encouraged), and finally gold and dollar holdings of about £600 million, a very large part of which must be kept generally available for the sterling area as a whole.

Points from Published Accounts

Accounts for Experts—or Laymen ?

Since the chairman of Lever Brothers & Unilever, Ltd., Mr. Geoffrey Heyworth, was a member of the Cohen Committee, it is not surprising that the accounts which the company submits for 1946 conform fully with the provisions (yet to be brought into practical effect) of the new Companies Act. All the same the accounts are worthy of special remark, for they go well beyond even impending statutory requirements. Thus, not only are there consolidated accounts for the English company on the one hand and its Dutch counterpart (Lever Brothers & Unilever, N.V.) on the other, but there is also a statement combining these two sets of accounts. The need for the comprehensive view given by this combined statement is imperative in view of the equalisation agreement between the two companies—which comprise, in effect, one single undertaking. But to acknowledge that in practical fashion inevitably makes for complexity. This is accentuated by a series of general notes on the principles adopted in the presentation of the accounts; by itemised comments on individual balance sheet and profit and loss entries; and by additional schedules bearing on capital expenditure and depreciation, turnover, pensions, and the relation of profits distributed and retained to capital employed. It is not belittling the attempts of other companies which have gone out of their way to furnish shareholders with detailed information to say that this is the most ambitious and effective effort yet—so far as the expert is concerned. But a mine of information for the expert is apt to prove but a labyrinth of perplexity for the layman; and, although a separate summary of the more important points on the accounts is submitted, it is doubtful whether this is sufficiently simplified for the average shareholder. This is no criticism of the directors, who are known to be anxious to evolve a direct and elementary form of presentation suited to the unskilled, as a supplement to the more orthodox statement. It is merely evidence of the great difficulty of conforming to the new Companies Act and at the same time keeping shareholders individually aware of developments. There is no secret about the Board of Trade's view that the new Act delivers shareholders into the hands of the expert—Sir Stafford Cripps has himself said as much. The Act will, however, largely fail of its purpose if, having established the principle of shareholders' control more firmly, it becomes the vehicle for the presentation of accounts which, however plainly they tell the story to the experts, are too complex for the average shareholder to grasp. Not the least of the additional responsibilities which the Act lays upon accountants are those of devising simple methods of presentation and persuading directors to adopt them.

Turnover and Profits

Besides again presenting a breakdown of the year's turnover, which amounted for the two companies to £338 million odd, the Unilever accounts have an instructive statement showing what proportions of this figure were represented by direct taxation on profits (3·32 per cent.), net dividend distributions (1·85 per cent.), appropriation to reserve for future British income tax (0·74 per cent.), and profit retained within the organisation (0·86 per cent.). It is not out of place to recall that, on the second reading of the Companies Bill in the Lords, Lord Lucas urged that turnover figures should be shown in accounts, and that the Lord Chancellor, while resisting any immediate action, was sympathetic to the view that this would provide some measure of the reasonableness or otherwise of the profits disclosed. In a special section headed "The Year in Brief" the Metal Box Company takes its income from sales and investments (£16,412,000) as 100 and shows how this was balanced by manufacturing materials, supplies, services and expenses (67·9 per cent.), wages and salaries (22·4 per cent.), other payments to or for the benefit of employees (2·3 per cent.), plant depreciation (1·8 per cent.), and profit (5·6 per cent.). With taxes taking 2·9 per cent. of turnover, the sum available for distribution was 2·7 per cent., divided almost equally between dividends and retentions within the business. This is an interesting innovation, of the type which is likely to be carefully scanned at the next revision of the Companies Acts. But it is scarcely logical to put such expenses as the cost of manufacturing materials against a figure which includes investment revenue. As it happens the outside investment holdings are not large in this instance, but in other applications this method of analysis might prove misleading. The case for ensuring that like is set against like—manufacturing costs against the value of the sales of manufactured goods, and so on—must be borne duly in mind if this development in the technique of company accounting is really to be as fruitful as it promises.

Siemens Brothers and Co.

The consolidated profit and loss account of Siemens Brothers & Co. distinguishes very carefully between normal revenue of the year and extraneous items. The trading profit of £533,321 is stated to include approximately £110,000 in respect of previous years, and, in crediting £290,975 of E.P.T. recoverable, the directors make it plain that this is a net sum after deducting £110,000 liability on the earlier profits. Income of £56,881 from trade investments is given a separate entry, while the provisions for depreciation (spread between freehold and leasehold buildings on the one hand, and plant, machinery, furniture and fixtures on the other), deferred repairs and income tax are all disclosed. Freehold and leasehold land and buildings are shown at cost of £1,030,292 less depreciation of £288,671, but for some reason the other fixed assets—plant, machinery, furniture and fixtures—are brought in at a net amount of £268,312 without the accumulated depreciation being revealed. The parent's balance sheet displays final dividend appropriations at their net amount, enabling a true distinction to be drawn between current liabilities and provisions and the £212,600 earmarked for future income tax. The logic of this treatment has not extended, however, to the profit and loss account, which still follows the now outmoded practice of showing dividend appropriations at their gross sum.

Another Extension of Consolidation

While submitting a consolidated balance sheet, Allied Ironfounders has hitherto followed the practice of revealing the trading experience of the subsidiaries merely by way of mention in the directors' report. This time a formal consolidated profit and loss account is presented; and this, incidentally, tells a fuller story, stating, as it does, the sums absorbed by directors' commission (£7,482). and depreciation (£110,730). There is also a clear statement of the tax position, the group provision of £489,784 under this head being split up into E.P.T. to December 31, 1946 (£217,400), income tax (£250,348), on profits to date, and profits tax

(£22,036) to March 31 last. In the consolidated balance sheet the fixed assets are brought to a total of £1,633,450, from which is deducted a central obsolescence and depreciation reserve of £200,000, but the basis of valuation for the individual items is, unfortunately, not indicated. It is also a defect that the basis of valuation of the marketable investments and deposits, brought in at £537,227, is likewise not stated. The position could have been made plainer by indicating the market value of these holdings at the balance sheet date.

LAW Legal Notes

EXECUTORSHIP LAW AND TRUSTS

Will—Investment clause—Purchase of house.

In *Re Power's Will Trusts* (1947, 2 All E.R. 282), by his will made in 1940, the testator, after appointing the Public Trustee his sole executor and trustee, gave all his residuary estate to his trustee upon trust to sell and invest and to hold the same upon trust for his wife for life and after her death for his children and their issue. He directed that all moneys requiring to be invested under his will might be invested by his trustee in any manner in which he might in his absolute discretion think fit in all respects as though he were sole beneficial owner of such moneys, including the purchase of freehold property in England and Wales. The testator died in 1945, survived by his widow and by three children, all under 21. The widow remarried. She had asked the Public Trustee to apply part of the residue in purchasing a freehold house with vacant possession as a residence for herself and the three children who were beneficiaries. He applied to the Court to determine the question whether he had power to purchase a freehold house in England, not as an investment, but for the occupation of the tenant for life and the testator's children upon the terms of the tenant for life paying all outgoings and keeping the premises in repair and insured. Jenkins, J., said that the will only authorised the purchase of freehold property as an investment. There was authority for the proposition that there was a distinction between purchasing property for the sake of the income to be derived by way of rent and purchasing it in order to occupy it or to allow someone else to do so. In the former case, the purchase was both in popular and in legal language accurately described as an investment. But in the latter case, it was not necessarily an investment, as it was a purchase for some other purpose than the receipt of income. It might be a purchase which was not attractive from the financial point of view, or otherwise beneficial, because part of the price might be attributable to the special benefit represented by the acquisition of a suitable place in which to live. It followed from his construction of the will that it did not authorise the purchase of a freehold house with vacant possession as a home for the tenant for life and the testator's children, because such purchase would not be by way of investment. He therefore found that the Public Trustee had no power under the will to purchase the house for the occupation of the tenant for life.

Inheritance (Family Provision) Act, 1938—Provision for wife.

In *Re Inns* (1947, 2 All E.R., 308), by his will a testator gave to his trustees £85,000 on trust to pay the income thereof to his wife during her widowhood, and a freehold house, which had been the marital home, on trust to permit the wife to live there during her widowhood, subject to her keeping it in good repair and properly insured. It was a large house and the wife estimated that in order to live in it she would need £3,612 a year, whereas the income which she would receive under the will was £3,244, and she had no other source of income. During her widowhood the house could not be sold without her consent and that of the local authority to whom it was to be offered on her death or remarriage. The testator's net estate was valued at £607,780. The widow applied to the court under Section 1 of the Inheritance (Family Provision) Act, 1938, for additional income out of the estate. She contended that the provision made for her by the will was not reasonable because it was insufficient to enable her to live in the marital home in suitable circumstances, as the testator had intended her to do. Wynn-Parry, J., held that the 1938 Act proceeded on the basis that a testator should continue to enjoy freedom of testamentary disposition, provided that he made such provision for his dependants as the court could regard as reasonable in all the circumstances. It was never intended to put the court in the position of a testator so that it should re-make his will. The jurisdiction given to the court by the Act was essentially a limited one, to be cautiously, if not sparingly, exercised. The same principles must be applied in the case of a large estate as in that of a small one. The provision which the testator had made for his wife by his will could not be considered unreasonable merely because he had intended that she should continue to live in the marital home, but had failed to provide sufficient income to enable her to do so. Therefore she was not entitled to an order under the Act.

MISCELLANEOUS

Defence (General) Regulations—Compulsory Acquisition—Price of Shares.

In *Short* v. *Treasury Commissioners* (1947, 2 All E.R., 298), by order made under the Defence Regulations, the Minister of Aircraft Production took control of the undertaking of a company and directed that its shares should be transferred to his nominees to hold on his behalf. By further order the price of the shares was fixed at 22s. 3d. or 29s. 3d., according to class, figures arrived at simply by reference to Stock Exchange prices ruling at the date of transfer. The shareholders contended that as the transfer was of all the shares in the company, the appropriate mode of price fixing was either (1) to ascertain the value of the whole undertaking and then to determine the proportionate value of the separate classes of shares and of individual shares within each class, or (2) to apportion the value of the totality of shares in one hand, so as to comprehend the value of the complete control thereby conferred. The Court of Appeal, unanimously dismissing an appeal from a judgment of Morris, J., held that the effect of the order was to transfer shareholdings from individual shareholders to the competent authority or its nominees; the ordinary and reasonable construction was that the price to be paid to each holder was to be not less than the value of his shares on the basis of a separate bargain of sale by a willing individual seller to a willing individual buyer. The fact that a purchaser might be prepared, if he could thereby acquire the whole of the shares, to pay more than the " market " value of each individual share did not affect the principle that the claimants were only entitled to the value of what they had. The regulation did not entitle the claimants to be paid for something more than that to which they were severally

entitled immediately before the appropriate date. It would seem from the judgments in this case that the Stock Exchange quotation need not always be the value adopted and it is open to any shareholder to seek to displace by evidence such quotations, provided such evidence is directed to the value as between a willing buyer and a willing seller of the particular holding *per se*.

The Emergency Acts and Orders

These summaries of emergency enactments and Orders have been published in ACCOUNTANCY *since the beginning of the recent war. They are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.*

ORDERS

EXPORTS

No. 443. *Export of Goods (Control) (Amendment) Order*, 1947.

Export licensing control is removed from a number of commodities, but imposed on some others.

(See ACCOUNTANCY, February, 1947, page 43.)

FINANCE

No. 628. *Regulation of Payments (Spanish Monetary Area) Order*, 1947.

No. 680. *Regulation of Payments (Italy, Republic of San Marino and Vatican City) Order*, 1947.

Some relaxations are made in the restrictions on methods of payment for exports to the areas named.

No. 944. *Order in Council amending Regulation* 6 *of the Defence (Finance) Regulations*, 1939.

No. 945. *Control of Borrowing Order*, 1947.

No. 946. *Capital Issues Exemptions Order*, 1947.

New and revised regulations relating to capital issues and borrowing are substituted for those hitherto in force. Treasury consent is required for issues or loans amounting to more than £10,000 in any twelve months. The regulations relating to Northern Ireland are revoked completely, as control of capital issues is now dealt with by the Northern Ireland Parliament.

(See ACCOUNTANCY, April, 1947, page 86.)

INCOME TAX

No. 582. *Income Tax (Employments) (No.* 5*) Regulations*, 1947.

The regulations relating to P.A.Y.E. are amended (*a*) to give effect to the introduction of a new type of tax table for 1947-48, and (*b*) to bring service pay and pensions within the scope of Pay as you Earn.

(See ACCOUNTANCY, November, 1946, page 324.)

TRADING WITH THE ENEMY

No. 461. *Trading with the Enemy (Enemy Territory Cessation) (Dodecanese Islands) Order*, 1947.

The Dodecanese Islands ceased to be treated as enemy territory from March 14, 1947.

No. 448. *Italy: Licence dated March* 12, 1947.

Payments may be made and remitted to Italy for the granting or renewal of any Italian patent, design or trade mark.

Nos. 664, 665, 666. *Trading with the Enemy (Roumania) Orders.*

Nos. 1031, 1032, 1033. *Trading with the Enemy (Japan) Orders.*

Some trade and other transactions are permitted from April 14, 1947, with the Roumanian State and residents in Roumania, and from May 28 with the Japanese State and residents in Japan.

(See ACCOUNTANCY, April, 1947, page 86.)

WAR DAMAGE

No. 390. *War Damage (Increase of Value Payments) Order*, 1947.

War damage value payments as computed on the basis of prices at March 31, 1939, are to be increased in some cases by 60 per cent. and in all others by 45 per cent.

(See ACCOUNTANCY, March, 1947, page 51.)

Society of Incorporated Accountants

DISTRICT SOCIETIES

LONDON STUDENTS' SOCIETY

The Committee of the Incorporated Accountants' Students' Society of London and District have prepared their programme for the forthcoming Autumn Session, and so far as present-day circumstances permit they are proposing to resume pre-war activities. The war damage suffered at the Incorporated Accountants' Hall still puts a strain upon the organisation, but the staff are surmounting these difficulties with typical resourcefulness and to them the Committee acknowledge their most grateful thanks.

The Committee will welcome any suggestions from members for extension or improvement of the facilities now available. These include a full lecture programme, details of which are posted to each member; advice by the Secretary on any matter concerning a student's approaching examinations; and the use of the parent Society's Library at Incorporated Accountants' Hall. Full information relating to the Library is contained in the Catalogue published in 1939, copies of which are still obtainable free of charge.

The Secretary of the Students' Society is Mr. C. Evan-Jones, Incorporated Accountants' Hall, Victoria Embankment, W.C.2.

CUMBERLAND AND WESTMORLAND

A meeting was held at the Crown Hotel, Windermere, on July 19, to meet the President of the parent Society (Sir Frederick Alban, C.B.E., J.P., F.S.A.A.), who was accompanied by Mr. A. A. Garrett, Secretary, and Mr. I. A. F. Craig, Deputy Secretary. Mr. F. Griffith, F.S.A.A., President of the District Society, welcomed the visitors.

Sir Frederick Alban referred to legislation affecting the accountancy profession. They had watched with interest the progress through Parliament of the Companies Bill, particularly the provisions relating to the qualifications of auditors of public and private companies. The Bill strengthened the position of auditors and set forth in some detail requirements as to accounts.

Sir Frederick expressed his gratitude to Mr. Edmund Lund, who, in co-operation with Mr. Griffith and Mr. T. E. Williams, had arranged that meeting. He wished the Cumberland and Westmorland members every success in the resumed activities of their District Society.

The following officers and Committee were elected: President, Mr. Herbert J. Rigg, F.S.A.A.; Vice-President, Mr. W. H. Stables, F.S.A.A.; Committee: Mr. J. E. Coppock, A.S.A.A., Mr. W. Forsyth, F.S.A.A., Mr. F. Griffith, F.S.A.A., Mr. W. L. Harris, J.P., F.S.A.A., Mr. C. H. Huntley, F.S.A.A., Mr. F. Kenyon, A.S.A.A., Mr. A. Kerr, A.S.A.A., Mr. Edmund Lund, M.B.E., F.S.A.A., Mr. C. W. Thomas, A.S.A.A., Mr. J. Watson, F.S.A.A.; Honorary Secretary, Mr. T. E. Williams, F.S.A.A.; Honorary Auditor, Mr. E. E. Rainbird, A.S.A.A.

It was decided to form a Students' Section, with Mr. J. J. Thomson and Mr. H. L. Litchfield as Honorary Secretaries. The District Society Committee were asked to

arrange other activities, including lectures and perhaps a luncheon or a dinner.

Mr. Herbert J. Rigg and Sir Frederick Alban referred to the long and valuable work of Mr. Edmund Lund for the District Society. Mr. Lund was unanimously elected a life member of the Committee.

NOTTINGHAM, DERBY AND LINCOLN

Annual Report

The membership includes 61 Fellows and Associates in practice, 117 Fellows and Associates not in practice, and 163 students—a total of 341, compared with 294 in 1946.

For the first time a full joint lecture syllabus was arranged with the Nottingham Society of Chartered Accountants and the Nottingham Society of Certified and Corporate Accountants. Members also attended one lecture at the invitation of the Institute of Cost and Works Accountants. The standard of the lectures was high, and the attendances very satisfactory. A joint syllabus will again be arranged for the current year.

Mr. J. W. Mee represented the Society on the Council of Nottingham Chamber of Commerce, and on the Advisory Committee of Nottingham Technical College.

The scheme for the university education of accountancy students has now come into operation at University College, Nottingham. Mr. J. W. Mee and Mr. J. B. Carter were appointed members of the Local Joint Standing Committee.

The Students' Section has been re-formed, and students are asked to show their interest in its activities.

During the year the death occurred of Principal H. A. S. Wortley, of University College, Nottingham. He was Principal at the time of the Incorporated Accountants' Conference held at University Park, Nottingham, in 1939. He rendered great assistance to the scheme for the education of accountancy students at the College.

A number of members have been found satisfactory appointments through the District Society.

SOUTH OF ENGLAND

Since the retirement of Mr. F. Woolley, J.P., F.S.A.A., as Honorary Secretary of the South of England District Society, Mr. E. J. Waldron, F.S.A.A., has carried out the duties of Acting Honorary Secretary. Mr. E. J. Waldron has now relinquished these duties, and the Committee have appointed as Honorary Secretary Mr. C. J. B. Andrews, F.S.A.A., of 4, Cinema Buildings, Poole Road, Bournemouth West. A Sectional Honorary Secretary for Southampton and District will be appointed later.

SOUTH WALES AND MONMOUTHSHIRE

Students' Societies

A cricket match was played on July 8 between the Cardiff and Newport Students. Thanks are due to the Penarth Cricket Club for the use of their ground. The match was won by Cardiff. Both teams and visitors were entertained to tea by Mr. R. R. Davies, F.S.A.A., past Chairman of the Cardiff Students' Society, and Mrs. Davies. Mr. C. E. Edwards, F.S.A.A., President of the District Society, thanked them for their hospitality. Mr. K. G. Sim, A.S.A.A., Newport, spoke on behalf of the visitors.

SWANSEA AND SOUTH-WEST WALES

Syllabus of Lectures, 1947-1948

1947

Sept. 26 "Law of Procedure at Meetings," by Mr. Gordon Thomas, Ph.D., A.S.A.A., A.C.I.S., F.L.A.A. Chairman: Mr. E. G. White, F.S.A.A.

Oct. 14 *"Consolidated Accounts," by Mr. Gordon Thomas, Ph.D., A.S.A.A., A.C.I.S., F.L.A.A. Chairman: Mr. G. S. Palmer.

Oct. 24 "Punched Card Accounting with Particular Reference to Factory Costing Records," by Mr. W. J. Price, A.S.A.A., of Powers-Samas Accounting Machines, Ltd. Chairman: Mr. Bernard Griffiths, A.L.A.A.

Nov. 11 *"Consolidated Accounts," by Mr. Gordon Thomas, Ph.D., A.S.A.A., A.C.I.S., F.L.A.A. Chairman: Mr. D. Fitzgerald.

Nov. 21 "The Function of Management in Retail Trading," by Mr. J. Murray. Chairman: Mr. Garfield A. Watkins, F.S.A.A., A.C.I.S.

Dec. 9 *"Consolidated Accounts," by Mr. Gordon Thomas, Ph.D., A.S.A.A., A.C.I.S., F.L.A.A. Chairman: Mr. J. G. Powell.

Dec. 19 "Some Points on Local Government Finance," by Mr. H. K. Greaves, F.S.A.A., F.I.M.T.A., A.L.A.A. Chairman: Mr. H. J. Bassett, F.C.I.S.

1948

Jan. 14 *"Income Tax," by Mr. G. Glanville Mullens, M.C., F.S.A.A. Chairman: Mr. A. Altorfer, A.I.M.T.A.

Jan. 23 "Some Points on Company Law," by Mr. D. Gethin Williams, LL.B. Chairman: Mr. T. O. Morgan, A.S.A.A.

Feb. 11 *"Income Tax," by Mr. G. Glanville Mullens, M.C., F.S.A.A. Chairman: Mr. S. Page.

Feb. 27 "Economics," by Professor E. V. Morgan, M.A. Chairman: Mr. Arthur Jones, B.Sc. (Econ), A.C.I.S.

Mar. 3 *"Income Tax," by Mr. G. Glanville Mullens, M.C., F.S.A.A. Chairman: Mr. D. S. Jones.

Mar. 26 "General Costing," by Mr. Percy H. Walker, F.S.A.A. Chairman: Mr. W. Wood, F.L.A.A.

The conjoint lectures of the District Society will be held at the Mackworth Hotel, Swansea, at 6.45 p.m.

* These lectures are arranged by the Students' Section and will be held at the Central Library, Alexandra Road, Swansea, at 6.30 p.m.

PERSONAL NOTES

Mr. L. E. Rudkin, Incorporated Accountant, is now in practice at 12, The Crescent, King Street, Leicester.

The accountancy practice of Messrs. Hart, Moss & Co., 22, Moorgate Street, Rotherham, will in future be carried on under the name of Messrs. Hart, Moss, Copley & Co. The partners will be Mr. W. H. Copley, F.C.A., and Mr. C. E. Copley, B.Sc., F.C.A., together with Mr. C. R. Branson, A.C.A., Mr. A. Millward, A.S.A.A., and Mr. R. C. Lambert, A.S.A.A., who have all held responsible positions with the firm over many years.

Mr. G. F. Haydon, Incorporated Accountant, has commenced practice as G. F. Haydon & Co., at 30/32, Telville Road, Worthing, Sussex, and at West Worthing.

Mr. Sidney R. Knight, F.S.A.A., has retired from the firm of Messrs. Sidney R. Knight & Co., Ilford. Mr. J. B. Bland has taken into partnership Mr. W. G. Spittle, and the practice is now being carried on under the firm name of Knight, Bland & Co., Incorporated Accountants.

Mr. Festus Moffat, O.B.E., J.P., F.S.A.A., Incorporated Accountant, Falkirk, has taken into partnership Mr. William B. Scott, A.S.A.A., who received his professional training in Mr. Moffat's office. During the war Mr. Scott served with the Royal Artillery. The practice will be carried on under the style of Festus Moffat & Co., Incorporated Accountants.

Mr. J. D. R. Cheetham, A.S.A.A., has commenced practice at 15, Victoria Street, Liverpool, 2.

Messrs. Smallfield, Fitzhugh, Tillett & Co., Chartered Accountants, announce that the separate firm of Fitzhugh, Tillett & Co. does not now exist. Their only address is 24, Portland Place, W.1. Mr. Lindsay Fynn and Mr. Kyle have retired from the partnership.

Mr. I. Wynn Llewellyn, A.S.A.A., has taken into partnership Mr. D. H. Davies, A.S.A.A. The practice is being continued at 29, High Street, Narberth, Pembrokeshire, under the firm name of Wynn Llewellyn & Davies, Incorporated Accountants.

REMOVAL

Mr. E. C. Milner, Incorporated Accountant, has removed his office to Horton Chambers, 26, Horton Street, Halifax.

Housing Committees

Mr. Eric Maxwell, F.S.A.A., has been appointed a member of a committee set up by the Secretary of State for Scotland to keep under review costs of house building in Scotland.

The following members of the Society of Incorporated Accountants served on the Scottish Housing Advisory Committee in the production of a report on "Modernising our Homes": Mr. James C. Cessford, Mr. J. D. Imrie, C.B.E., and Mr. James A. Scott, O.B.E. The first two members also served on the Committee when it produced its earlier report, "Planning Our New Homes."